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Jeffrey Epstein Raked In $200 Million After Legal and Financial Crises

By Matthew Goldstein and Steve Eder

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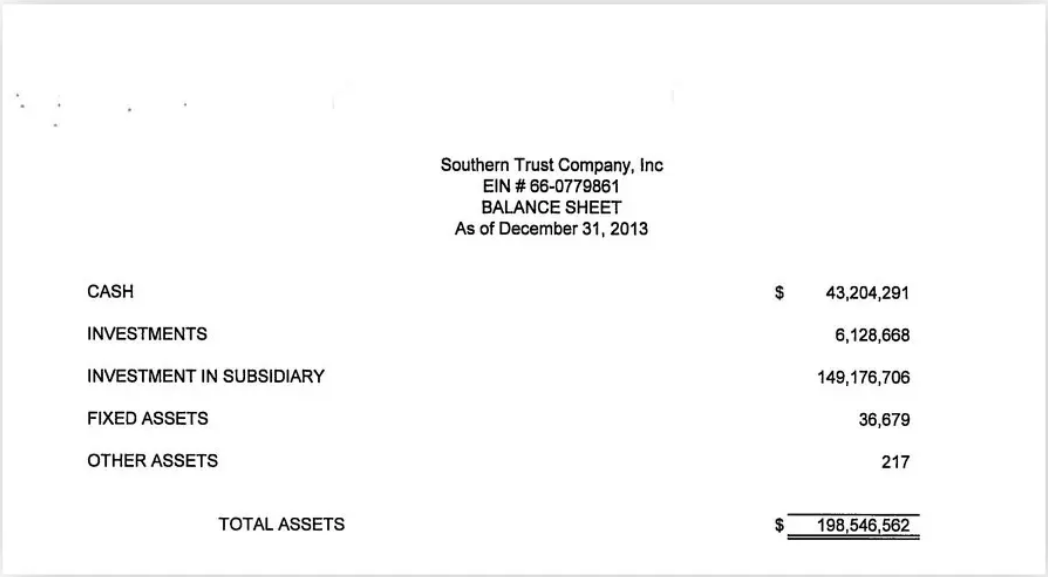
Jeffrey Epstein's biggest client had deserted him, his money management firm had lost more than $150 million during the financial crisis, and he was a registered sex offender. But after he started a new company with a wildly speculative business plan in 2012, Mr. Epstein had no problem pulling in cash.

[Jeffrey Epstein's charity: An image boost built on deception.]

His start-up, Southern Trust, reported more than $200 million in revenues over the next five years, according to a review of previously unreported financial statements filed in the Virgin Islands.

Despite a name that calls to mind a financial services firm, the fledgling company with a handful of employees said it was developing a DNA data-mining service. Southern Trust was trying to gauge customers' predisposition to cancer by "basically organizing mathematical algorithms," Mr. Epstein told Virgin Islands officials as he sought a lucrative tax break in 2012.



Southern Trust Company, Inc
EIN # 66-0779861
BALANCE SHEET
As of December 31, 2013

CASH	$ 43,204,291
INVESTMENTS	6,128,668
INVESTMENT IN SUBSIDIARY	149,176,706
FIXED ASSETS	36,679
OTHER ASSETS	217
TOTAL ASSETS	$ 198,546,562

The 2013 balance sheet for Southern Trust, which Mr. Epstein founded for DNA research.

Mr. Epstein's business revival is documented in financial statements and other filings obtained by The New York Times. The documents — from Southern Trust and his earlier firm, Financial Trust — offer a glimpse of Mr. Epstein's mysterious finances. They show that Financial Trust peaked at the end of 2004, when it reported $563 million in assets and net income of $108 million. And they demonstrate how Mr. Epstein rebuilt his business in his later years, with Southern Trust reporting $175 million in retained earnings — leftover profits that can be reinvested — in 2017, the last year for which statements were available.

But the documents do not say who was paying vast sums of money to Mr. Epstein's new venture just a few years after his 2008 guilty plea to soliciting a minor for prostitution. Nor do they offer an explanation for why customers would hand over money to a man who had apparently switched from financial services to DNA research.

They do, however, offer a reason for that sudden change in focus. In 2012, Mr. Epstein asked the Virgin Islands Economic Development Authority to note that Financial Trust no longer managed money, so it would not have to register with federal securities regulators as required under the Dodd-Frank Act. Later that year, Financial Trust was replaced by Southern Trust, which Mr. Epstein told territorial officials would still maintain a "financial arm."

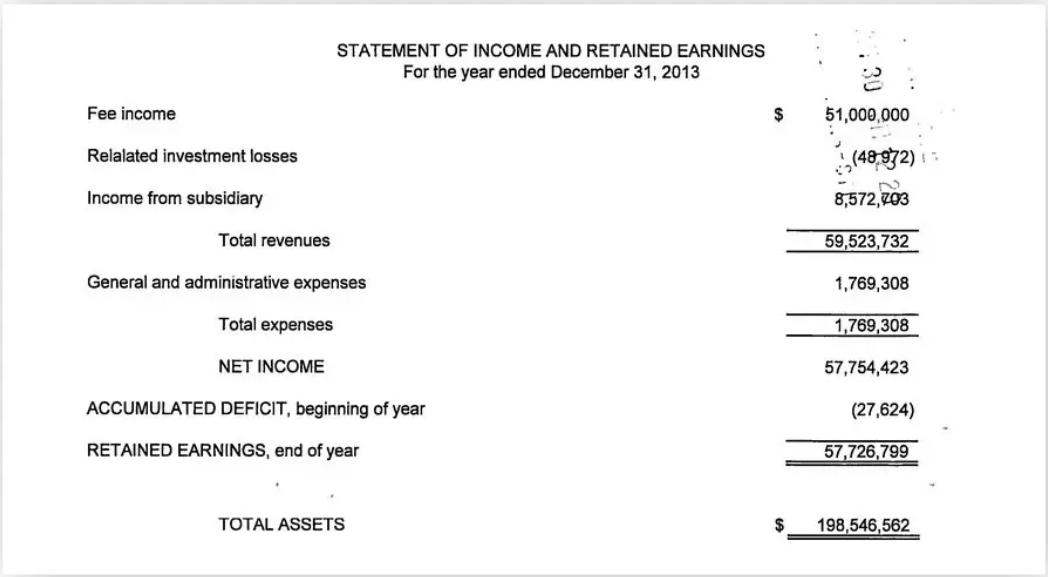
The single-page unaudited financial statements for both companies — obtained through a public-records lawsuit against the territory's Division of Corporations and Trademarks — are littered with curious line items.

At Financial Trust, a company with fewer than a dozen employees, investment expenses varied widely, from $1.3 million in 2000 to $16 million in 2004 to $42 million in 2005. In 2006 — the year Mr. Epstein was charged in Florida — Financial Trust pushed $117 million into an unnamed subsidiary whose purpose was undisclosed. The subsidiary was apparently transferred to Southern Trust in 2013, and by the end of 2017 the subsidiary accounted for more than half of the company's $391 million in assets. The filings also disclose that Southern Trust received a $30.5 million loan that same year, but don't say who provided it.

One thing the financial statements make clear: Mr. Epstein paid himself handsomely. He pocketed $400 million in dividends and other payments from the companies starting in 1999 — the first full year after he moved his operations to the Virgin Islands from New York.

The opacity of Mr. Epstein's financial dealings has been a perplexing issue since he was arrested in July on federal charges of sex trafficking with underage girls. Although the criminal case against him closed after he committed suicide in federal custody in August, Mr. Epstein's finances remain an important matter for women who are suing his estate claiming they were among his victims.

Two days before he killed himself, Mr. Epstein signed a will that placed his estate — estimated in court records at more than $500 million — into a trust, potentially an attempt to shield it from public scrutiny. The will lists Darren K. Indyke and Richard D. Kahn, two longtime associates, as executors.



STATEMENT OF INCOME AND RETAINED EARNINGS
For the year ended December 31, 2013

Fee income	$ 51,000,000
Relalated investment losses	(48,972)
Income from subsidiary	8,572,703
Total revenues	59,523,732
General and administrative expenses	1,769,308
Total expenses	1,769,308
NET INCOME	57,754,423
ACCUMULATED DEFICIT, beginning of year	(27,624)
RETAINED EARNINGS, end of year	57,726,799
TOTAL ASSETS	$ 198,546,562

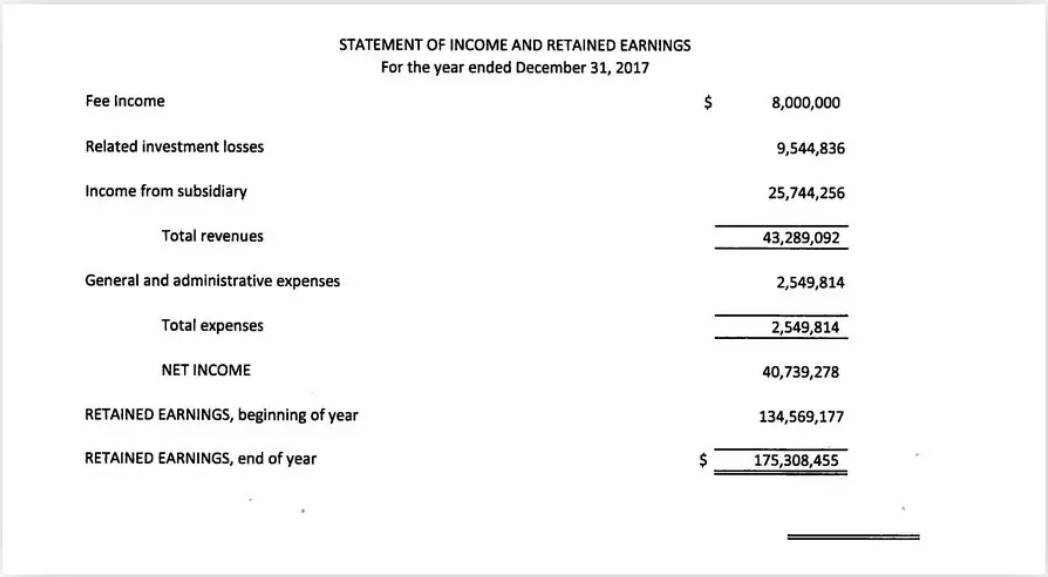
On this sheet, Southern Trust reported net income of more than $57 million in 2013, its first full year in business.

The financial statements and accompanying documents reviewed by The Times were signed at various times by Mr. Indyke, a lawyer who incorporated dozens of Mr. Epstein's companies, and Mr. Kahn, a New York accountant. Mr. Indyke served as president of Financial Trust for two years, which included the period that Mr. Epstein was serving a prison sentence in Florida after his 2008 guilty plea.

Neither Mr. Indyke nor Mr. Kahn responded to repeated requests for comments. Lawyers for the men also did not respond to messages.

For many years, Mr. Epstein's businesses in the Virgin Islands operated out of an office suite at a marina complex on St. Thomas. After Mr. Epstein's death, a man at the office told a visitor through an intercom that no one at Southern Trust was available to talk.

Documents obtained from the Virgin Islands Economic Development Authority show how officials rarely pressed Mr. Epstein on his dealings, even as they granted lucrative exemptions that allowed him to pay as little as 10 percent of the effective tax rate in corporate income tax. The tax breaks are granted to companies that agree to minimum hiring requirements and commit to investing at least $100,000 in an industry that advances the territory's "economic well-being." Currently 71 companies, including Southern Trust, receive the incentive.



STATEMENT OF INCOME AND RETAINED EARNINGS
For the year ended December 31, 2017

Fee Income	$	8,000,000
Related investment losses		9,544,836
Income from subsidiary		25,744,256
Total revenues		43,289,092
General and administrative expenses		2,549,814
Total expenses		2,549,814
NET INCOME		40,739,278
RETAINED EARNINGS, beginning of year		134,569,177
RETAINED EARNINGS, end of year	$	175,308,455

By the end of 2017, Southern Trust reported having $175 million in leftover profits.

The development authority did not respond to messages seeking comment.

Government watchdogs and others have long criticized the territory's history of light regulatory oversight. "Rich people have tried to make it their residence and do business there," said Jack Blum, a Washington lawyer who has led corruption investigations for several Senate committees. "The idea was to keep it all out of the hands of the I.R.S."

Mr. Epstein set up shop in the Virgin Islands in 1998, calling himself a "financial doctor" who had decided to settle there after "vacationing up and down the world," according to a transcript of a hearing the next year as he sought tax incentives that were ultimately granted. During his extensive remarks — an official interrupted Mr. Epstein's soliloquy at one point to remind him he had only 15 minutes to make a presentation — he discussed working at Bear Stearns and opined about that "electronic mail" was rendering the fax machine obsolete.

He also boasted about managing money for Leslie H. Wexner, the longtime chief executive of the company that runs Victoria's Secret, who recently said Mr. Epstein had misappropriated large sums of money from him.

The end of their association is evident in the income statements of Financial Trust. The company reported fee income — money charged to clients for services, rather than gains

from investments — of $66 million in 2006. In 2007, the year that Mr. Wexner said he had cut ties with Mr. Epstein, Financial Trust's fee income was just shy of $4 million. In 2008, it was $100,000.

Financial Trust reported fee income of $100,000 for the next three years, then none in 2012 — the year Southern Trust was founded.

In 2013, its first full year in existence, Southern Trust reported fee income of $51 million.